A regular meeting of the Pension Committee was held May 12, 2016 at 9:00 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

The following members were present: Danny Barnwell, Dick Gardiner, Mark Krock, Jay Jeffries and Stan Joyner.

Staff present was James Lewellen, Adam Hamric, Pension Attorneys Frank Carney and Kitty Jungkind and Lynn Carmack. Also present was Susan Fletcher and Gerald Laurain of First Tennessee Bank.

APPROVAL OF MINUTES

Motion by Mayor Joyner, seconded by Mr. Krock, to approve the minutes of the February 11, 2016 meeting.

ROLL CALL: Barnwell – abstain, Gardiner – yes, Krock – yes, Jeffries – yes, Joyner – yes.

REVIEW OF THE QUARTERLY INVESTMENT PERFORMANCE OF THE COLLIERVILLE DEFINED BENEFIT PENSION PLAN BY FINANCIAL ADVISORS – FIRST TENNESSEE BANK (Gerald Laurain and Susan Fletcher)

Mr. Laurain began his review by outlining the Five Factor Framework to give an overall idea of the economic conditions and the market back drop. He stated that the five factors taken into consideration are: general economic back drop (measured by the Economic Cycle Research Institute), market trend, availability of credit, investor sentiments, and valuations. Mr. Laurain noted that out of the five factors, three of these factors present as "green lights" and two factors present as "yellow lights". He noted that since the last meeting the Town has lost one "red light" and gained one "yellow light", therefore presenting a sort of mixed bag. Mr. Laurain stated that Chris Lowe's economic outlook shows a similar adjustment.

Mr. Laurain noted that by looking at the data, the general economic backdrop does not look bad. He stated that according to the Economic Cycle Research Institute's numbers, the market showed a financial gain at the end of March, as did the market trend. Mr. Laurain noted that the market trend has been up for the last couple of months. He explained that while January and February were not good, market trends were back up in March. He stated that the general economic backdrop and market trend are nicely "green".

Mr. Laurain remarked that availability of credit appears as another "green light". He stated that the shape of the yield curve is still nicely positive and that in terms of availability of credit, there is nothing to worry about at the moment. Mr. Laurain recalled that at the March meeting, the Fed had backed away from what had been a pretty aggressive interest rate increase proposal, received at the end of December. He stated that at the end of December, four increases for 2016 were being discussed. Mr. Laurain noted that in March only two increases are being discussed and that the market is actually only expecting one.

Mr. Laurain remarked that the last two factors, investor sentiment and valuation, are in the "yellow" right now. He stated that investor sentiment is more enthusiastic, but noted that this is a conflicting indication of enthusiasm. Mr. Laurain explained that as the market approached old highs, investor sentiment moved from "green" to "yellow". He noted that the long term historical average for valuations has been around 15 or 16, and that now they are around 17. Mr. Laurain stated that this is not enough to cause alarm, due to the absolute low level of interest rates. He explained that price earnings multiples are tied to the general level of interest rates. Mr. Laurain remarked that price earnings multiples are expected to be higher when interest rates are low and vice versa.

Mr. Laurain stated that by looking at the data, and not listening to the news, the impression is one of cautious optimism in regard to the outlook for equities. He feels that the data will continue to show a sideways trading market until after the November election.

Mr. Laurain noted that there has been a change in the economic forecast since the last meeting. He reported 2.1% for GDP growth in 2016 and 1.6% for 2017. Mr. Laurain stated that by looking at the updated version from April 8, 2016, one now sees 1.8% for 2016 and 1.2% for 2017. He stated that reductions of estimated growth are of 3/10ths and 4/10ths respectively.

Mr. Laurain remarked that in spite of the decline in growth of GDP, there appears to be an increase in Core PCE, which is the Fed's preferred version of the cost of living. He stated that this increase equals 1.7% in each of 2016 and 2017 for increases of 7/10ths and 4/10ths of a percent.

Mr. Laurain stated that his estimate for Core PPI in 2017 currently remains the same.

Mr. Laurain noted a revision in his forecast on Fed Funds following Janet Yellon's press conference in March. He stated that this forecast has been reduced to just 75 basis points for the end of 2016 and 125 basis points for the end of 2017. Mr. Laurain remarked that 50 basis points had been knocked off of the 2017 forecast, and noted that this is consistent with the outlook for slower GDP growth.

Mr. Laurain reiterated the sideways market movement, noting that this is not just about the stock market, but also about fixed incomes.

Mr. Laurain reported that according to Economic Weekly, productivity is important in the minds of the economist because GDP growth, at the very highest levels is a function of two things, population and productivity. He explained that if population is increased, GDP should be expected to increase. Mr. Laurain stated that when population is held constant, GDP often improves by increasing productivity. He stated that if productivity goes down, GDP growth is expected to go down, with interest rates to follow suit.

Mr. Laurain stated that there have been some modest changes in the Capital Market Assumptions since the last meeting. He remarked that the general tone has been a reduction in return expectations across virtually all asset classes. For 2015, the expected asset class return for High-Yield was 5.84, losing approximately 50 basis points, and down to 5.38 for 2016. Mr. Laurain noted that according to the order of Treasury Inflation-Protected Securities for 2015, a return of 3.57 had been expected (150 basis points off of expected returns). He explained that the idea is that the expectation, with respect to returns, in fixed income, is fairly consistently declining across the board

Mr. Laurain then turned his attention to equities, noting that in 2015 the Large Cap stocks had an expected return of 6.82 and for 2016 it is 6.36. This is a 45 or 50 basis point reduction.

Mr. Laurain reiterated that the economic environment is not robust.

Mr. Laurain discussed performance, stating that the total fund for the third fiscal quarter returned 1.61% versus a blended benchmark of 1.00%. He stated that the blended benchmarks were down in January and February. January was lower than February and in March the market was up. He called attention to this to note that the portfolio was intentionally constructed with low volatility. Mr. Laurain stated that this is an example of winning by not losing, explaining that overall the portfolio is performing as expected.

Mr. Laurain then discussed asset allocation, noting that the target for this particular fund is 60/40. He remarked that expectations for asset allocation were on target.

Mr. Laurain then discussed portfolio holdings, pointing out that a couple of changes had been made to individual equity holdings. He stated that research has pointed to the popularity of momentum stocks in 2015 and 2016, especially regarding FANG (Facebook, Amazon, Netfilx, and Google). Mr. Laurain mentioned that those not in momentum stocks could expect a lag. He remarked that momentum stocks seemed to be getting overly valued and even with the conservative portfolio, four stocks that were probably susceptible to retracements as a result of their built up momentum, have been identified. Mr. Laurain stated that, as of the end of February, four stocks had been traded into four new ones. He stated that the right decision, in terms of derisking that portion of the portfolio, has likely been made, but that the ultimate impact is unknown.

Mr. Laurain discussed portfolio holdings, including two of the mutual funds currently listed in the portfolio. He explained that Vulcan is a fund that has concentrated value and is currently being watched. He stated that it is the subject of scrutiny because regarding value orientation it has been lagging.

Mr. Laurain stated that the Victory Sycamore Established Value fund was just recently noted by Barrons as being the best Mid Cap Value Fund for the last 10 years, ending in November 2015. He remarked that it is nice to have a star performer in the portfolio.

Mr. Jeffries stated that it does not look like the 7.5% goal will be met.

Ms. Fletcher remarked that Richard Ellis would be present at the next or following meeting. She stated that he is able to use various smoothing techniques over different periods to obtain a more realistic look at how it affects the plan.

Mr. Barnwell stated that Macy's retail is currently experiencing a large bubble.

Mr. Laurain stated that he was aware and that it is currently being monitored.

There were no further questions.

ACTUARIAL SERVICES (DEFINED BENEFIT PENSION PLAN) CONTRACT EXTENSION WITH ELLIS & WARD CONSULTING GROUP, INC. (Presentation by: Mark Krock, Finance Director)

The purpose of this agenda item is to exercise the option to extend for one year, July 1, 2016 through June 30, 2017, the existing professional services contract for actuarial services for the Town's Defined Benefit Plan with Ellis & Ward Consulting Group, Inc.

In June of 2012, the Board of Mayor and Aldermen approved a contract with Ellis & Ward Consulting Group, Inc. for a three year contract with the option to extend the contract for two additional 12 month periods. This will be the final year of this contract.

The professional services provided by Ellis & Ward Consulting Group, Inc. includes: annual actuarial valuations of the plan, providing GASB calculations, and providing annual employee (active) benefit statements for an annual contract fee of $12,650. In addition, each certified retirement calculation for retiring employees is $295.

Mr. Ellis has provided timely and satisfactory actuarial services for the Town's Defined Benefit Pension Plan throughout the current contract period. The amount paid to Mr. Ellis for fiscal year 2015 was $11,750.

Motion by Mayor Joyner, seconded by Mr. Barnwell, to recommend the one year extension of the professional services agreement for actuary services for the Town of Collierville Defined Benefit Pension Plan with Ellis & Ward Consulting Group, Inc. to the Board of Mayor and Aldermen.

ROLL CALL: Barnwell – yes, Gardiner – yes, Krock – yes, Jeffries – yes, Joyner – yes.

RENEWAL OF CONTRACT WITH FIRST TENNESSEE NATIONAL BANK ASSOCIATION (Presentation by: Mark Krock, Finance Director)

The purpose of this agenda item is to recommend to the Board of Mayor and Aldermen the renewal of the contract for financial advisor and trust administration services for the Town of Collierville Defined Benefit Pension Plan with First Tennessee.

In May of 2007, the Board of Mayor and Aldermen approved a contract with First Tennessee to provide financial advice and trustee services for the Defined Benefit Pension Plan (Pension). As trustee, First Tennessee keeps a record of all assets in the Pension and OPEB accounts, collects all dividends and interest income, makes cash distributions to retired employees and others, and sends appropriate tax forms to retired employees on an annual basis. As financial advisor, First

Tennessee assists the Pension/OPEB Committee in adhering to adopted investment policies and provides quarterly reports of investment returns and updates to the Pension/OPEB Committee.

The contract does not specify a contract duration period but states the agreement may be terminated at any time by either party with 30 days advance written notice. However, the Town has elected to formally renew these contracts on an annual basis.

The fee to provide both financial advisory and trust administration services is based on a percentage of the total investment value of the Pension portfolio. The Pension portfolio value as of March 31, 2016 was $54,884,719 and the fees through Q3 (July 2015 – March 2016) were $107,965. The fees are paid directly from the Pension account after staff reconciliation and approval.

Motion by Mayor Joyner, seconded by Mr. Krock, to recommend renewal of the professional services agreement for financial advisory and trust administration services for the Town of Collierville's Defined Benefit Pension Plan with First Tennessee to the Board of Mayor and Aldermen.

ROLL CALL: Barnwell – yes, Gardiner – yes, Krock – yes, Jeffries – yes, Joyner – yes.

ADJOURNMENT

There being no further business, the meeting was declared adjourned at 9:26 a.m.

Chairman

Lynn Carmack
Town Clerk